



## **Lee County Government Parks and Recreation Bond Referendum FAQ**

### **What is a municipal bond?**

A bond is a loan. There are different types of municipal bonds, but they all have one purpose – to borrow money. This involves a promise to pay money, with interest, on a specified date. A general obligation (G.O.) bond pledges the full faith and credit of the jurisdiction to repay the debt; “full faith and credit” expresses the commitment of the County to repay the bonds from all legally available funds – this includes government taxing power. G.O. bonds are typically the least costly financing option available to local governments to fund large scale projects.

### **Do G.O. Bonds require voter approval?**

Yes. The North Carolina Constitution requires voter approval before a local government may borrow money and secure the loan by a pledge of its faith and credit—that is, before it may borrow money secured by a pledge of its taxing power. Therefore, before G.O. bonds are issued, they must first obtain voter approval.

### **What is a bond referendum?**

A bond referendum is the voting process that gives voters the power to decide if the County should be authorized to raise funds through the sale of bonds. A G.O. bond requires a simple majority of the voters to pass.

### **What projects will be on this bond referendum?**

The Lee County Board of Commissioners have expressed their intent to place a bond referendum on the 2020 General Election ballot to construct an outdoor multi-sport Complex. The Complex concept includes rectangle sports fields for activities such as soccer, football and lacrosse; diamond fields for baseball and softball; walking trails; playgrounds; and picnic shelter areas. Specific items of the final design may change during the design phase of the project but there will be opportunity for public comment and feedback before a final design is approved.

### **Why does the County use debt financing instead of cash to pay for these projects?**

Simply stated - major capital improvement projects are expensive and take time to complete. Capital projects like the Complex may span years from start to finish; and the benefits the community receives would be realized once the project is completed and for years after. Debt financing spreads out the cost of the project over time so that those receiving benefits from the project in the future will also share some of the costs.

Using cash to pay for capital improvement projects may also impact current levels of service and programming the County is able to offer, as well as reduce the number and frequency of capital improvement projects the County may complete. Like most households, debt financing makes major capital improvements more affordable and puts less stress on the County's budget. G.O. bonds are the least expensive debt for jurisdiction tax payers. Remember, using debt financing is not a sign of poor financial health; in fact, Lee County currently has a bond rating of AA from Standard & Poor's and Aa2 from Moody's that means due to our strong financial position, we are likely to receive competitive and lower interest rates on the debt.

	Moody's	Standard & Poor's	Fitch	The Ratings Map
Investment Grade	Aaa	AAA	AAA	High Grade
	Aa1	AA+	AA+	
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
Non-Investment Grade	Ba1	BB+	BB+	Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC	Substantial Risks
	Caa2	CCC		Extremely Speculative
	Caa3	CCC-		Default
	Ca	CC		
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### How much would the County issue in bonds?

If citizens vote in favor of the bond financing questions on the November 6, 2020 ballot, the County will have the authority to issue up to \$25 million in bonds over seven years. If the projects cannot be initiated in seven years, the County may ask for a three-year extension from the North Carolina Local Government Commission.

**Does this mean the County will wait seven years to issue the bonds?**

The seven year timeframe provides local governments with flexibility to issue debt. This flexibility means we are able to issue debt when it is most financially advantageous to us. The County will monitor the bond market and initiate the bonds when rates are low and also monitor economic development growth so that revenues generated from tax base growth is able to support repayment of the debt offsetting any tax increases that may be otherwise necessary to generate sufficient revenues.

**What is the County's current debt service?**

In 2020, the County's general fund debt service is \$10,999,542 or 14.25 percent of the total general fund budget. The County pays down principle on the bonds each year. This creates additional debt capacity while keeping the percent of general fund budget below 15 percent.

**How long will it take for the County to pay back the bonds?**

The bonds are borrowed for a 20-year period; this means the bonds will mature or be payable in twenty equal installments of principal payable annually – i.e. one payment per year for twenty years. The payment amount will be dependent upon total amount of debt issued (not to exceed \$25 million) and interest rates at the time of issue. , The first principal payment will be due one year from the date of issuance.

**What are the property tax rate implications of these bonds if approved?**

The estimated property tax rate impact is 4.20 cents per \$100 of assessed value. For the average homeowner in Lee County, a 4.20-cent increase would amount to \$62.44 per year, or \$5.20 per month. This assumes no growth in the property tax base; growth in the property tax base would decrease the rate impact.

**Can the County guarantee that the tax impact will not exceed the estimated 4.20 cents or guarantee that there will be no impact to the tax rate?**

No. By definition, a bond referendum seeks approval from the citizens to use the taxing authority of the local government as collateral to pay back the G.O. bonds if issued. While the tax rate impact estimate is based on current market, there are variables that could impact estimates both positively and negatively. Changing market conditions including the loss or gain of a major taxpayer in the county would impact current estimates. The pledge of the G.O. bond is that the local government will use full taxing authority to raise the revenues necessary to repay the debt. The variable nature of market conditions is why the tax rate impact is not included on the ballot as it could be misleading to the public The public is voting on whether or not to approve the project for debt issuance and offer the pledge to the bond holders that the debt will be paid back no matter the tax implications.

**What is the value of one penny on the tax rate?**

One penny on the current tax rate generates \$569,793 in revenue for the County.

**Will taxes be applied to real property only?**

No. Taxes will be applied to all assessed value, which includes real and personal property, such as your vehicle or boat.

**If voters do not approve the bonds, does this mean that the County Commissioners will be prevented from raising property tax rates in the future?**

No. The Board of Commissioners may raise, maintain, or lower the property tax rate each year to raise revenues sufficient to meet the operational and capital needs of the County.

**Other potential questions:**

**1. When would tax increases to pay off the debt go into effect?**

The Commissioners may begin to raise taxes July 1, 2021. If the Bonds pass the Commissioners and Staff will discuss a detailed financial plan on how to implement the bonds with the least amount of tax impact. The Commissioners will also meet with the Parks and Recreation Advisory Committee to develop priorities for the Complex. There will also be public meetings where citizens of Lee County may discuss and have input into the final development plan for the Complex.

**2. Given the condition of the economy, is now the right time to vote on these particular bond initiatives?**

Planning for a bond referendum takes time. In this case, the development of the Multi-Sports Complex plan started in 2015. It has taken five years to bring this project to a vote of the people. If the Bonds pass, the Commissioners will start with purchasing and designing the site. This could take up to 12 months. Within this time frame, it takes at least 6 to 7 months to issue the debt once the decision is made to move forward. Once the design is approved and then bids are accepted for construction, the bonds can be sold. The process to bid and construct a facility can take up to a year or more. This means lead-time for actual use of the facility is approximately 24 to 36 months. There are also many variables that may impact the project development further extending the timeline.

**3. If the County does not move forward with the bond referendum now, when can the referendum be placed on the ballot again?**

North Carolina State Law requires that referendums for the County be conducted in General Elections. The next General Election in Lee County will be the mid-term primary election that is now scheduled for March, 2022. In all likelihood, the mid-term general election in November of 2022 would be the next opportunity.

**4. If the voters approve this bond, how will bond raters view the additional debt in light of the County's existing debt?**

If the referendum passes and the bonds are issued, the total debt the County will incur will not exceed the County's stated goals for the ratio of total debt to tax base. Bond rating agencies also tend to favorably view bonds that are supported by the vote of the citizens for quality of life projects. Since the Complex will enhance Lee County as a place to live, work and play and the county's key financial indicators remain within our stated goals the bond rating agencies should look upon this debt favorably.

**5. If the bond referendum is approved, how quickly could the project begin?**

The average timeframe is 24 to 36 months to design the facility, issue debt, bid the project, and then construct the facility.

6. **Can the Commissioners change the plan as presented after the bond is approved?**

Yes. As with any Bond that is approved for construction, plans may change due to many factors. Market conditions for the financing or the construction market could change. The financial models that the County uses are very conservative, so things would have to change a great deal for the project to be impacted by market conditions. In addition, the site chosen for the project will need to be further evaluated to ensure that the conditions on the site are favorable. The owners of the property and the County have evaluated the site as far as we can without the approval of the Bond. Lastly, any changes in representation on the Board could impact the facility. The Commissioners will have the final say on what is constructed and when.

7. **Will this facility be constructed if the bonds do not pass?**

No. The Commissioners have clearly stated that they believe this project is a “nice to have” not a “need to have” project. The Commissioners have a statutory responsibility to build schools and courthouses so in those cases if bonds are not passed these facilities still have to be built. While there has been vocal support for the project from some in the community, this project is viewed as a quality of life amenity. A vote of the people will determine the importance of constructing this type of a facility to the people of Lee County.